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Cost Optimization as an Important Factor of Increasing Company Income

Igamov Boburjon Olimjon ugli
Fergana Polytechnic Institute, "Department of Accounting and Auditing" 2nd year Master
unityacademy09@gmail.com

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Abstract: *The article considers cost optimization as an important factor in increasing the income of companies, including: the study of factors affecting costs; verification of compliance of technological processes with standards; calculation of the optimal load of production workshops; identify the causes of work interruptions; monitoring for defects during shipment or receipt of goods; the issue of overloading the warehouse was studied and considered. The article then provides suggestions and recommendations for cost analysis and optimization.*

Keywords: *cost, cost reduction, cost calculation, cost classification, cost, revenue, profit.*

Introduction. In the context of modernization of the economy, the development of production, works and services is one of the priorities of economic reforms in our country.

It plays an important role in ensuring sustainable economic growth in our country. In particular, this sector is directly involved in the realization of investments in the productive and non-manufacturing sectors of the economy. This, in turn, will lead to the emergence of free and open competition among manufacturers and the production of products of competitive quality and affordability, as well as the improvement, modernization, technical and technological renewal of the materials.

Therefore, based on the requirements of market relations, the development of the industry in our country, the radical improvement of its material and technical base, the introduction of new equipment and technologies in this sector, in turn, is one of the most pressing tasks.

Analysis of the literature on the subject. There is currently a wealth of research on accounting and cost management. The most important among them are the works of Russian and foreign scientists Bezrukix P.S., Vrublevsky N.D., [1-2] Ivashkevich V.B., Kondrakov N.P., Nikolaeva O.E., Novodvorsky V.D., Pali V.F., Trusov A.D., Sheremet A.D., Ch.Horngren, K.Druri. B. Needles have extensively researched Foster.[3-4-5] Scientists of our country AA Abduganiev, AH Rametov, MK Pardayev, EF Gadoev, OM Jumanov, M.Yu. Rakhimov have carried out research work in this direction.[6-7-8]

Research methodology. In writing the article, system analysis methods and techniques were used, and a factor analysis was conducted to increase the company's profitability by expanding the product market.

Analysis and results. The cost of production of an enterprise is the cost of producing the product. These include raw materials, supplies, fuel, depreciation, wages and other production costs.

If we divide the total cost of production of the same product by the number of products produced, we find the unit cost of production. Cost is one of the most important indicators of quality in an enterprise. The lower it is, the higher the profitability of production. The cost does not include all the costs of the enterprise, some costs are covered by other sources. For example, current expenses are covered by profit.

The cost of production is reflected in the costing items by type of production, where the costs are incurred, and by type of product. The main purpose of cost accounting and costing of products is the timely, complete and accurate determination of costs associated with the production and sale, as well as the calculation of the actual cost of individual products and control over the use of enterprise resources and funds consists of installation.

During the years of independence, the implementation of accounting reform in our country has led to changes in the most important issues. The adoption of the Regulation "On the structure of costs of production and sale of goods (works, services) and the order of formation of financial results", first in 1995 and then in 1999, led to radical changes in the country's accounting. This Regulation determines the distribution of costs based on the nature of the costs associated with the entity's profit for the period. [9-13]

The approximation of cost accounting to this system is one of the tasks that accounting must perform in a market economy. today, there is a competitive struggle in all sectors of the economy, and one of the main tools in this struggle is to reduce the cost of production.[15] However, before moving to administrative measures to reduce costs, it is necessary to calculate them correctly and distribute them among the types of products.

Among the many cost classification methods, the most common and the most widely used in practice are:

- Classification of costs according to their relation to the object;
- Classify costs according to changes in production volumes.

Under the first method, costs are divided into direct and indirect costs.

Direct costs can be transferred directly to the facility in an economically viable manner. Indirect costs are not directly related to the object and are usually attributable to more than one object. For example, if the wages of the production staff are the correct costs, the wages of the shop manager are the indirect costs. This classification is used to study the impact of a decision to produce a particular type of product on costs, regardless of production volume.

The second method uses variable and fixed costs. The total amount of variable costs varies in proportion to the volume of production. The total amount of fixed costs remains the same with changes in production. For example, raw materials and supplies are variable costs and depreciation charges are fixed costs. There are also costs that vary in proportion to production. It is common to call such costs conditionally constant or conditionally variable. It is often added to variable or fixed costs to avoid complicating the calculation.[10-12]

From the logic of the above classification, it can be concluded that it is difficult to study the effect of production on the amount of costs. So which of these two classification methods can be used to help make pricing or management decisions about a product? To determine this, it is necessary to consider the advantages and disadvantages of each approach.

The classification of costs into direct and indirect costs is used to calculate the unit cost of a product. All direct costs and all production costs are included in the cost of goods produced. The cost curves are distributed among the product types in proportion to the distribution base selected (Figure 1).

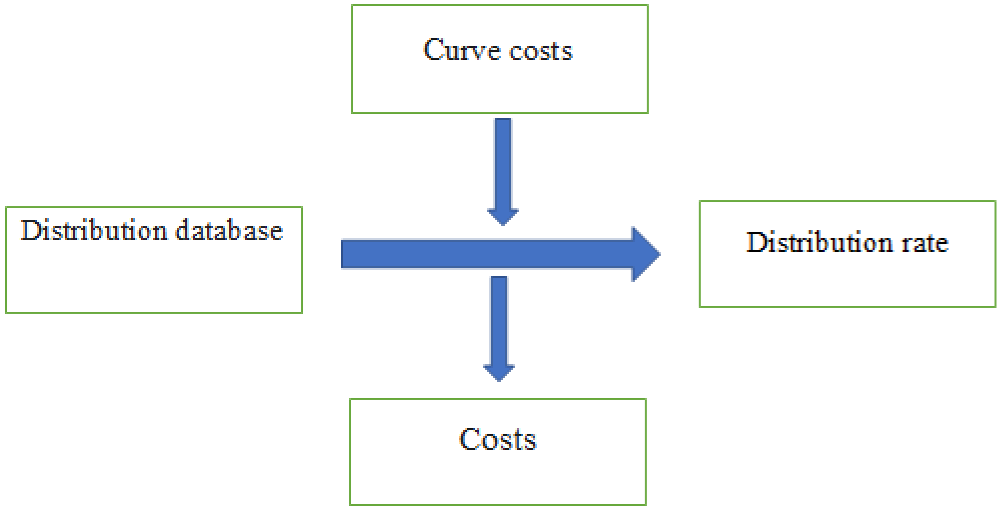


Figure 1. Curve cost distribution scheme

Information on the total cost may be required in the following cases: First, the cost of production is the basis for determining the amount of work in progress, cost of goods and materials, cost and financial performance will be.

Second, this indicator allows you to analyze the profitability of individual products, product groups and divisions, and helps to decide whether it is appropriate to produce them in the future.

Third, the full cost index is widely used in pricing, especially in controlled pricing. Contracts where the sale price is determined by the formula "full cost + premium" are common.[16-24]

In the past, the full cost method has been widely used in management decisions in a planned economy with full capacity and no price competition. However, today the full use of production capacity is determined by the demand for the product. Therefore, one of the main tasks of the manager is to determine the cost of production in a given volume of production.

When using the full cost method, the answer to the above question can be obtained only at the end of the reporting period.[25] However, the manager should know the information about the future cost at the time of planning the range. The lack of a link between costs and production volume is a major drawback of full costing. In addition to the above, the following disadvantages of the full cost method can be highlighted:

The first is that the criteria for selecting the basis for allocating indirect costs to product types are not always valid. There are a limited number of distribution databases that can be used, and the choice of one of them is subjective. This is especially true for modern high-tech companies, which have a large share of the right materials and labor costs in the cost of production. In most traditional industries, the share of indirect costs in the cost of goods produced can be up to 50%. For example, in the mining and metallurgical industries.[14-18]

The following example shows that the distribution of indirect costs to departments distorts the performance of the department. As a distribution base, we take the sales volume of the most used unit. Second, the profit due to the distribution of the curve cost over the output depends on the change in the stock of the finished product in the warehouse. In the event of accumulation of illiquid reserves, the company will be able to increase its profit. (Figure 2)

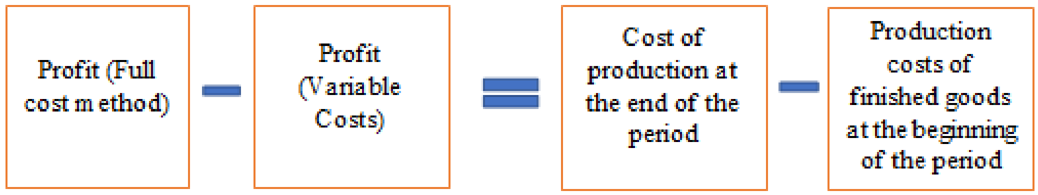


Figure 2. The difference between the full cost and the variable cost method

Thus, it can be concluded that the full cost method is theoretically reasonable, but it is more inconvenient to solve the practical problems facing the enterprise.

The above shortcomings can be avoided by allocating them based on variable and fixed costs. For example, in this method, only variable costs are included in the cost of inventories, and fixed costs are transferred to current expenses. This will eliminate the impact of changes in inventories. However, the main practical value of determining the cost of variable costs is the wide range of opportunities for management decision-making and analysis in a rapidly changing market environment. It is no coincidence that this method is used in Western management accounting systems. The most common analytical tools that use variable and fixed cost data are:

- Cost-Volume-Benefit Analysis;
- Price formation on the basis of marginal income;
- Select an alternative option.

To make a decision about production, management needs to know the impact of that decision on prices, revenue, and profits. Knowing the variable costs per unit of output and the total fixed costs in a given volume of sales allows you to calculate the expected profit of the enterprise.[17]

Lack of such an approach can have negative consequences for cost management. For example, the lack of such information in the management of a sales network can have tragic consequences. The stores in this network recorded profits at the end of each reporting period. However, after the distribution of costs by the management company, some of the stores were constantly running at a loss. The network's management decided to close the loss-making store, but the management did not take into account that the bulk of the company's costs were fixed costs.[11] It is not difficult to predict the outcome of such a decision, after the closure of the stores, the fixed costs of the parent company were distributed among the remaining stores, and as a result, they ended the reporting period with a loss.

The described "Cost-Volume-Benefit" analysis is closely related to the method of calculating marginal revenue, which is determined by deducting variable costs from the revenue received. Marginal revenue is widely used in pricing. Short-term pricing based on marginal revenue is used to capture the market and cover part of all variable costs and fixed costs through revenue from a new unit of output. Once the break-even point is reached and all fixed costs are covered, the recording of profits begins.

In modern conditions, enterprises do not always work at 100% capacity. Therefore, the analysis of the possibility of obtaining additional orders on the basis of marginal revenue will help the company to create an optimal production program. Bids from customers who are not eligible for acceptance in terms of full cost may be accepted after the marginal revenue has been calculated. These additional costs can cover at least part of your fixed costs and improve your overall financial performance.

One of the obstacles to the use of the variable cost method in our country is that the formal accounting system is still focused on the full cost method. In addition, the automation of management accounting is carried out in conjunction with accounting data. Because not everyone wants to enter the same

information into the database of accounting and management accounting. As a result, dividing costs into direct and indirect costs and calculating the total cost remains a priority.

However, that doesn't mean you have to give up the variable cost method altogether. Direct and indirect cost items are classified according to production volume and are labeled accordingly. For example, in the case of the payment of wages to those engaged in production, the item "Direct labor costs" is classified as fixed costs.

In this order, the indirect costs are also classified. Using the classification symbol allows you to automatically determine the amount of variable costs and determine the marginal revenue. These numbers are for reference only. Of course, this does not allow the use of the variable cost method in determining the cost of production, but it does allow the implementation of the above areas of financial analysis.

In conclusion, any analysis should be based on a reliable and operational management report. However, in many cases, management reports and operating budgets are analyzed only on the basis of accounting data. It's like getting stuck in a dead end street.[19-20-21]

Because the accounting report includes wages, value added tax, etc. due to calculations, it will be much later in time. In other words, it is necessary to introduce an operational and structural reporting system in order for the management account to be operational in the enterprise. The concept of "cost" is so broad that it requires special consideration. In general, when we talk about costs, we think of the reasons that create the conditions for the existence of the business, on the one hand, and reduce profits, on the other hand.

Establishment of production accounting in Uzbekistan on February 5, 1999 and amendments made by the Cabinet of Ministers of the Republic of Uzbekistan on October 15, 2003 on the "Regulations" (hereinafter referred to as the Regulations). This Regulation provides for the sale of products by legal entities and individuals who are business entities (opening a bank account), taking into account the current legislation on accounting and reporting - residents of the Republic of Uzbekistan. (works, services) is designed to unify the costs added to the cost.[22]

The main purpose of accounting is to calculate the costs and determine the financial results of their activities in order to determine the competitiveness of business entities in a market economy. However, there is a difference between taxable profit and profit in accounting, because according to the tax legislation of our state, not all the expenses incurred by the enterprise reduce the taxable base.

Therefore, the Statute has two appendices in order to determine the taxable base. These appendices contain items that are included in the cost but are included in the tax base by calculation under applicable tax law. Each of the ministries, departments, government agencies and economic administrations of the Republic of Uzbekistan, in consultation with the State Statistics Committee, the Ministry of Finance and the State Tax Committee of the Republic of Uzbekistan, determine the specifics of cost accounting in accordance with this Regulation.[23-27

The charter provides the following opportunities:

- formation of accurate and complete information on all expenses incurred in the process of production and sale of products in the accounting accounts to determine the efficiency of the enterprise and its competitiveness in the market;
- Correctly determine the tax base.

According to the charter, all costs are grouped as follows:

- Costs included in the cost of production;

- Costs not included in the cost of production, but included in the costs of the period;
- Financial expenses of the enterprise, which are directly debited to the account 9600 "Expenses for financial activities";
- Extraordinary losses, which are recorded in the account 9720 "Emergency losses".

In this regard, cost items are grouped as follows:

The cost of production of goods (works, services) includes costs directly related to the production of goods (works, services), production technology and its organization.

Costs included in the cost of production - these are related to natural resources, raw materials, materials, fuels, energy, fixed assets, labor resources, as well as production, used in the production or processing of products (works and services) is the value of other expenses incurred.[26]

These include direct and indirect material costs, direct and indirect labor costs, and other direct and indirect costs, including overheads of a production nature.

Costs that make up the cost of production of goods (works, services) are grouped according to their economic content with the following elements:

1) Material costs of production (excluding the cost of returnable waste);

2) Labor costs of a production nature;

3) Social insurance contributions related to production;

4) Depreciation of fixed assets and intangible assets of production significance; 5) other production costs.

Conclusions and suggestions. Thus, all costs associated with production activities are included in the cost of the product. This, in turn, allows you to solve the following tasks on the calculation of production costs: timely, complete and reliable reflection of the actual costs of production, calculation of the actual cost of each product and service, as well as material, control over the saving and rational use of labor and financial resources.

Thus, cost accounting is one of the most important parts of both financial accounting and management accounting. On this basis, it is possible to determine the tasks before the expense account.

Therefore, from the above considerations, it can be concluded that a practical re-examination of cost and cost effective management and the identification of problems in this area is one of the most pressing issues today.

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